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FISCAL IMPACT STATEMENT

LS 7132
BILL NUMBER: HB 1833

NOTE PREPARED: Feb 24, 2003
BILL AMENDED: Feb 20, 2003

SUBJECT: Excise taxes.

FIRST AUTHOR: Rep. Reske
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2003	FY 2004	FY 2005
State Revenues			
State Expenditures		393,000	(89,000)
Net Increase (Decrease)		(393,000)	89,000

LOCAL IMPACT	CY 2003	CY 2004	CY 2005
Local Revenues		4,600,000	4,600,000
Local Expenditures			
Net Increase (Decrease)		4,600,000	4,600,000

Summary of Legislation: This bill provides that a boat reportable on the individual personal property tax return is instead subject to the boat excise tax, and that all other personal property (except dogs) reportable on the return is instead subject to a supplemental vehicle excise tax (SVET). The bill repeals the boat excise tax tables and establishes tables that coincide with the SVET tables. This bill also repeals the dog tax and imposes a state dog tax at a rate of \$1 per dog owned. The bill requires reporting of dogs on the state income tax return.

Effective Date: January 1, 2004; December 31, 2004.

Explanation of State Expenditures: (Revised) *SVET - PTRC Savings:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. If assessed values and maximum levies are reduced as a result of this proposal (see *Explanation of Local Revenues*), the state would save the amount of PTRC paid on the maximum levy reductions for civil unit levies and for school transportation funds. The reduction in assessed value for school general funds would result in the state continuing its overall funding level by shifting part of the state payments from PTRC to tuition support. The amount that the state would save from civil unit and transportation fund PTRC payments is estimated at about \$223,000 in FY 2005 (partial year) and \$667,000 per year thereafter. PTRC is paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any PTRC savings would ultimately benefit the General Fund.

SVET - BMV Expenses: The Bureau of Motor Vehicles would incur additional costs related to the startup and maintenance of the new excise tax program. The BMV estimates that two additional clerical employees would be needed for administration of this tax. The BMV estimates total startup costs of \$393,000 in FY 2004, including contract software work, employee equipment, valuation guides, and decals. Ongoing expenditures beginning in FY 2005 for valuation guides, printing, supplies, reports, and decals are estimated at about \$134,000 per year. The bill makes an appropriation from the state General Fund in the amount necessary for the BMV to defray the above expenses.

Net State Impact: The overall net impact projected for the state under this proposal is an additional expenditure of \$393,000 in FY 2004 and savings of \$89,000 in FY 2005 and \$533,000 for years following.

Dog Tax - State Auditor's Office: The administrative changes in the implementation and administration of the state Dog Tax are expected to result in a minimal decrease in the administrative costs of the Auditor of State's office. Under current law, the Auditor's office is responsible for distributing dog tags to townships, paying claims against the funds, distributing funds to Purdue University, and redistributing a portion of any surplus money in the dog fund back to the counties.

Dog Tax - Department of State Revenue: This bill requires the Department of State Revenue to develop forms and procedures so that individuals may submit the Dog Tax when reporting the annual income tax. While this provision will increase the Department's administrative burden, it is presumed that any additional costs will be covered using existing staff and resources.

Explanation of State Revenues: *Dog Tax Revenue:* This bill repeals the current Dog Tax system and implements a \$1 tax on each dog owned by Indiana taxpayers. Under the proposed Dog Tax, all dog tax revenue would be dedicated to Purdue's School of Veterinary Science and Medicine. The first \$100,000 of funds received for an annual appropriation of these funds are dedicated solely to canine research. Based on data from the American Veterinary Medical Association, there are approximately 1.2 M dogs in the state. If each of these dog's owners were to remit the Dog Tax, Purdue could receive *up to* \$1.2 M each year. Under current law, the Purdue receives a maximum of \$100,000 annually from surplus Dog Tax funds. (See *Background Information*, below).

Background Information: Counties remitted \$235,330 in surplus Dog Tax revenue to the Auditor of State during FY 2002. Under current law, Dog Tax receipts are used to reimburse the state for the cost of dog tags, maintain a reserve balance in the fund, and for payment of claims not previously paid by counties or

townships. Fifty percent of any remaining funds are distributed to (up to \$100,000) to Purdue University for canine research. The remaining balance is distributed back to the counties. Counties and townships currently use money in the local, county, and state Dog Tax funds to pay claims related to damages to livestock by dogs and for rabies testing and treatment for persons bitten by a rabid dog.

Explanation of Local Expenditures: *SVET:* The total removal of individual-owned property from the property tax rolls would reduce administrative costs for township and county assessors. Counties would no longer need to print the individual-owned property tax return (Form 101) or send property tax billings for this property. Township assessors, county assessors, auditors, and treasurers are funded from the county general fund.

Dog Tax - Townships: The repeal of IC 15-5-9 removes the responsibility of administering the Dog Tax and dog fund from township assessors and trustees--including the payment of claims made against the fund for dog-related damages. This provision is expected to cause a minimal reduction in the workload of these township officials.

Any costs associated with dogs suspected of carrying rabies incurred after December 31, 2003, would be paid from any remaining balance of the township dog fund. On July 1, 2004, any remaining balance would be sent to a humane society designated by the county legislative body or to the township general fund if the county does not have a designated humane society. Township dog funds would no longer be maintained after July 1, 2004.

Dog Tax - Counties: The repeal of IC 15-5-9 removes the responsibility of administering the Dog Tax and dog fund from county auditors. Additionally, counties would not be responsible for the payment of claims made against the fund for dog-related damages. This provision is expected to cause a minimal reduction in their administrative burden. The bill requires county auditors to transfer any funds remaining in a county dog fund back to townships by July 1, 2003.

Explanation of Local Revenues: (Revised) *SVET:* Under current law, RVs, truck campers, all terrain vehicles (ATVs), and snowmobiles are assessed as personal property. Taxpayers must list this property on an individual-owned property tax return which is filed with the township assessor. The assessed value of this property becomes part of the tax base, and the taxpayer pays property tax based on the prevailing property tax rate where the property is located. This bill would remove this property from property taxation and instead require that the owners of this property pay an excise tax.

The proposed excise tax rates for the first year of a new RV, truck camper, ATV, or snowmobile are based on the amount of property tax that would be paid using a \$1.90 net property tax rate. This rate is the estimated statewide net property tax rate for real and non-business personal property for CY 2004. The estimate takes into consideration the effects of reassessment and the changes made by HEA 1001-2002(ss). The initial-year rates are then reduced during each of the following nine years by the same reduction percentages used in the Motor Vehicle Excise Tax rate structure.

It is estimated that this excise tax rate schedule will generate roughly the same amount of revenue (\$8.2 M) that will be paid in CY 2004 net property tax on these same properties.

The bill would grant taxpayers a credit against property tax due on RVs, truck campers, ATVs, and snowmobiles in CY 2004 in the amount of excise tax paid, thereby eliminating the property tax on this property. In CY 2005, maximum permissible levies would be reduced by the amount of SVET revenue that

the unit received in CY 2004. These provisions would ensure that local taxing units receive the same amount of overall revenue with the SVET in place as they now receive under property tax.

There would be a slight tax shift under this bill from SVET property owners to all other property owners. More correctly, the shift is from the state PTRC obligation on behalf of SVET property to all other taxpayers. Since (1) the maximum levy reduction would be equivalent to the net, and not the gross, property tax generated by SVET property, (2) the state would save the regular PTRC currently paid on this levy, and (3) there would be no reduction in overall local revenues, the difference between the net and gross civil and transportation fund levies on SVET property would shift to other taxpayers. This shift is estimated at about \$920,000 per year, statewide.

Boat Excise Tax: This bill would also change the tax rates applied to boats under the Boat Excise Tax. The current rate structure features 14 classes of boats based on cost when new with the fourteenth class including boats with a new cost of \$75,000 or more. The tax on a new boat currently ranges from \$2 to \$500. The tax is reduced by 10% for each year of the boat's age until the tax rate is equal to 50% of the original rate. There is a minimum rate of \$2 for boats in the first rate category and \$6 for all other categories.

The bill uses the same excise tax schedule for boats as it does RVs, campers, ATVs, and snowmobiles. This increases the number of rate categories to 25 with the last category being for boats with a cost of at least \$200,000. The tax rates for a new boat would range from \$12 to \$4,750.

Under the current rate schedule, boat owners pay about \$8.0 M per year in boat excise tax. The new rates are expected to generate about \$12.6 M each year.

Beginning in CY 2004, no taxing unit would lose any revenue from SVET vehicles. Annual revenues would, however, be increased by the additional \$4.6 M in boat excise tax received.

Dog Tax: Ending the local collection of the Dog Tax could cause a slight reduction of revenue to counties. Under current law, counties receive a reimbursement of a portion of the money paid into the state Dog Fund after claims, costs, and distributions. In FY 2002, the state's counties shared a distribution of \$81,359.

State Agencies Affected: Department of Local Government Finance; Bureau of Motor Vehicles; Auditor of State; Purdue University; Department of State Revenue.

Local Agencies Affected: Township assessors; County assessors; County Auditors; County treasurers; Township trustees; Trial courts, Local law enforcement agencies..

Information Sources: Local Government Database; Jane Morrical, Bureau of Motor Vehicles (232-2822); Auditor of State.

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